

Message Text

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PAGE 01 DACCA 05352 310307Z
ACTION NEA-10

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-08 FRB-03
INR-10 NSAE-00 ICA-11 TRSE-00 XMB-02 OPIC-03
SP-02 LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-07
CEA-01 /089 W
-----036259 010040Z /13
R 310155Z AUG 78
FM AMEMBASSY DACCA
TO SECSTATE WASHDC 628

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E.O. 11652: N/A
TAGS: ECON ELAB BG
SUBJECT: BDG RAISES INDUSTRIAL MINIMUM WAGE

SUMMARY. THE BDG HAS ANNOUNCED A NEW MINIMUM WAGE AND BENEFIT PACKAGE FOR ABOUT 300,000 PUBLIC SECTOR INDUSTRIAL WORKERS. THE NEW SCALE RAISES OVERALL MINIMUM COMPENSATION OF AN UNSKILLED WORKER BY AT LEAST 65 PERCENT TO BETWEEN TAKA 400 AND 507 PER MONTH, OR \$320 TO \$406 A YEAR. THIS IS FAR HIGHER THAN THE INCOME OF RURAL WORKERS AND THE ESTIMATED PER CAPITA ANNUAL INCOME OF \$85. THE WAGE INCREASE REFLECTS THE POLITICAL STRENGTH AND IMPORTANCE OF THE INDUSTRIAL UNIONS IN A ELECTION YEAR. SINCE THE PAY INCREASE IS NOT LINKED TO PRODUCTIVITY GAINS, IT WILL PLACE FURTHER STRAINS ON THE DEFICIT-RIDDEN STATE INDUSTRIES AND IS LIKELY TO BE INFLATIONARY. END SUMMARY.

1. THE NEW INDUSTRIAL WAGE SCALE WAS ANNOUNCED AUGUST 29 BY MINISTER FOR LABOR AND INDUSTRIAL WELFARE SHAH AZIZUR RAHMAN JUST BEFORE THE ADVENT OF THE HOLIDAY FESTIVAL OF EID-UL-FIRT. THE PACKAGE GIVES UNSKILLED WORKERS IN STATE INDUSTRIES A BASIC ANNUAL MINIMUM COMPENSATION OF TAKA 400 (\$27) A MONTH, INCLUDING THE BASIC WAGE OF TAKA 270
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PAGE 02 DACCA 05352 310307Z

A MINIMUM OF TAKA 90 FOR HOUSE RENT TAKA 30 FOR MEDICAL COSTS AND TAKA 10 FOR TRANSPORTATION. IT ALSO INCLUDES A FESTIVAL BONUS OF ONE MONTH'S PAY AND PAYMENT OF A YEAR'S AR-REARAGES UNDER THE NEW SCALE, WHICH IS RETROACTIVE TO JULY 1, 1977. RAHMAN ESTIMATED THAT IF THE FESTIVAL BONUS AND VARIOUS PRODUCTION INCENTIVE BONUSES ARE COUNTED, THE REAL MONTHLY WAGE OF AN UNSKILLED WORKER WILL BE TAKA 507 (\$34). EQUIVALENT

HIGHER WAGES AND BENEFITS WILL BE PAID TO SKILLED WORKERS UNDER THE NEW STRUCTURE, WHICH PROVIDES FOR 16 GRADES VERSUS 25 UNDER THE OLD SCALE. THE NEW SCALE IS DESIGNED TO REPLACE THE RECENT PATTERN OF AD HOC WAGE INCREASES AND HEREAFTER ONLY ONE INCREMENT WILL BE PAID ON A REGULAR BASIS EVERY TWO YEARS UP TO A MAXIMUM OF FIVE. THE NEW SCALE COVERS ABOUT 300,000 WORKERS IN THE STATE SECTOR, WHICH CONTROLS ABOUT 80 PERCENT OF BANGLADESH'S INDUSTRY. THE MAIN BENEFICIARIES WILL BE WORKERS IN THE TWO BIGGEST SECTORS, JUTE GOODS AND TEXTILES, WHERE UNIONS ARE ESPECIALLY STRONG. A SIMILAR WAGE INCREASE WILL BE CONSIDERED AND ANNOUNCED SOON FOR INDUSTRIAL WORKERS IN THE PRIVATE SECTOR.

3. MINISTER RAHMAN SAID THE NEW WAGE INCREASE REFLECTS PRESIDENT ZIA'S DESIRE TO IMPROVE WORKERS' CONDITIONS. HE PREDICTED IT WOULD HAVE NO EFFECT ON PRICES. HE ADDED THAT THE GOVERNMENT IS ALSO CONTEMPLATING A SYSTEM OF MANAGEMENT-WORKER CONSULTATIVE COMMITTEES IN ALL INDUSTRIES TO PROMOTE INDUSTRIAL PEACE AND SOCIAL EQUALITY.

4. COMMENT: ALTHOUGH BANGLADESHI INDUSTRIAL WORKERS ARE POOR AND ESPECIALLY VULNERABLE TO INFLATION, THEY ARE A PRIVILEGED GROUP COMPARED TO UNORGANIZED RURAL WORKERS, WHOSE AVERAGE ANNUAL INCOME IS SOMEWHERE BELOW THE ESTIMATED ANNUAL PER CAPITA INCOME OF \$85. THE LIMITED OFFICIAL USE

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PAGE 03 DACCA 05352 310307Z

NEW WAGE SCALE INCREASES THIS RURAL-URBAN INCOME DISPARITY. IT ALSO REFLECTS THE POLITICAL STRENGTH OF LABOR UNIONS AND THEIR IMPORTANCE IN AN ELECTION YEAR. BY ANNOUNCING THE WAGE INCREASE WELL AHEAD OF THE DECEMBER PARLIAMENTARY ELECTIONS, THE GOVERNMENT EVIDENTLY HOPES TO PREVENT A RECURRENCE OF THE WAVE OF INDUSTRIAL STRIKES, ESPECIALLY IN THE JUTE AND TEXTILE MILLS, WHICH PRECEDED THE JUNE PRESIDENTIAL ELECTION. HOWEVER THE ANNOUNCEMENT MAY WELL PROMPT DEMANDS FOR SIMILAR INCREASES FROM OTHER UNIONS AND GROUPS. IN ANY EVENT, THE NEW WAGE SCALE IS LIKELY TO ADVERSELY AFFECT PRICE STABILITY SINCE IT IS NOT LINKED TO INCREASED PRODUCTIVITY IN THE STATE INDUSTRIES. MANY OF THESE INDUSTRIES OPERATE AT CONSIDERABLE LOSSES AND RELY ON LARGE ANNUAL SUBSIDIES. UNLESS THEY RAISE PRICES TO COMPENSATE FOR THE INCREASED WAGE BILL, WHICH WOULD BE INFLATIONARY, THEY WILL NEED INCREASED SUBSIDIES FROM THE CENTRAL BUDGET. SINCE THERE IS NO PROVISION IN THE BUDGET FOR ADDITIONAL SUBSIDIES TO COVER THESE INCREASED WAGES WHICH WILL COST ABOUT \$33 MILLION, DEFICIT FINANCING MAY BE NECESSARY. THE WAGE HIKE WILL BE ESPECIALLY BURDENSOME TO THE JUTE GOODS INDUSTRY, WHICH HAS BEEN HARD HIT BY

PREVIOUS WAGE INCREASES AND REQUIRED A SUBSIDY OF \$39
MILLION IN FY 1978.
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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 jan 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: MINIMUM WAGE, WAGE RATES
Control Number: n/a
Copy: SINGLE
Draft Date: 31 aug 1978
Decaption Date: 01 jan 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 20 Mar 2014
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1978DACCA05352
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Expiration:
Film Number: D780356-0901
Format: TEL
From: DACCA
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1978/newtext/t1978085/aaaaadoe.tel
Line Count: 119
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: eaef6f61-c288-dd11-92da-001cc4696bcc
Office: ACTION NEA
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: n/a
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 05 may 2005
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: N/A
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 1697564
Secure: OPEN
Status: NATIVE
Subject: BDG RAISES INDUSTRIAL MINIMUM WAGE SUMMARY. THE BDG HAS ANNOUNCED A NEW MINIMUM WAGE AND BENEFIT PACKAGE FOR ABOUT 300,000 PUBLIC SECTOR INDUSTRIAL
TAGS: ECON, ELAB, BG
To: STATE
Type: TE
vdkgvwkey: odbcr://SAS/SAS.dbo.SAS_Docs/eaef6f61-c288-dd11-92da-001cc4696bcc
Review Markings:
Sheryl P. Walter
Declassified/Released
US Department of State
EO Systematic Review
20 Mar 2014
Markings: Sheryl P. Walter Declassified/Released US Department of State EO Systematic Review 20 Mar 2014